

# *City of Milpitas*

## *"Vision, Values and Goals"*

- *We promote an enthusiastic partnership with the community, elected officials and city employees to achieve our vision.*
- *We care about those served.*
- *We pursue excellence.*
- *We encourage creativity and innovation.*

### *Our Values*

- *Respect for our Customers*
- *Integrity*
- *Excellence*
- *"Can Do" Attitude*
- *Innovation*
- *Ethical Behavior*
- *Accountability*
- *Open, Honest Communication*
- *Community Trust*
- *Diversity*
- *Teamwork*
- *Fiscal Responsibility*

### *Our Goals*

- *To be committed to quality customer services.*
- *To ensure and enhance the quality of life in our community.*
- *To invest in our employees.*
- *To be fiscally responsible.*



# CITY OF MILPITAS

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August 29, 2005

Honorable Mayor and City Council  
City of Milpitas  
Milpitas, California 95035

Members of the City Council:

Submitted for your review and approval is the Annual Budget for Fiscal Year 2005-2006. This budget includes the City's operating and capital improvement budget, the Redevelopment Agency's activities and the City's water and sewer utility operations.

This budget has been developed to assist the City Council in the achievement of its vision for Milpitas and to ensure the delivery of quality, timely, and cost effective services to the community while continuing to meet future fiscal challenges in the most professional and responsive manner. Consequently, it is appropriate to begin this discussion of the budget with a review of the City Council's primary policies.

## **POLICY DIRECTION**

The Fiscal Year 2005-06 (FY 05-06) budget was developed to incorporate the following City Council's priorities and policy direction:

- Continue to provide high level of City services to the community in the most efficient and effective manner
- Maintain a reserve policy for the General Fund that will ensure against economic uncertainties
- Complete the planning and design for the new Library
- Continue to focus on Redevelopment projects and funding that will provide for the economic stability of the community and implementation of the Midtown Specific Plan
- Encourage commercial and residential development focused in the Midtown Specific Plan area that will center on the new light rail system and the future BART system to alleviate traffic congestion

The Budget Highlights section describes how staff has implemented the Council's policy direction through the budget. The City Council held a budget work session in March and conceptually approved the budget strategies recommended by staff.

## **BUDGET HIGHLIGHTS**

FY 05-06 Operating Budget was developed conservatively to address the fiscal challenges faced by the City with increase in General Fund expenditure continued to outpace revenue growth. Although the passage of Proposition 1A provides protection to local revenues by ending the practice of state raids on local property tax, it also requires local agencies' contribution to the Education Revenue Augmentation Fund (ERAF) in both FY 04-05 and 05-06. The City's share of the contribution for FY 05-06 is estimated to be \$1.05 million from the General Fund and \$3 million from the Redevelopment Agency (RDA) Fund. Limited by resources, the FY 05-06 Operating and Capital Budgets were prioritized to provide services that are most cost effective and beneficial to the community and projects that will bring economic stability to the City. Some of the most significant highlights from the budget are described below:

- Balance the General Fund budget without using any reserves by implementing financial strategies such as funding only 95% of the operating budget and judiciously reduce workforce through attrition. All these cost saving measures will be applied in a manner that will least impact services to the citizens and community.
- Continue the present hiring freeze in all vacant positions to achieve cost savings of more than \$4 million
- Provide funding to maintain existing employment benefits while striving to negotiate in good faith with the employee groups to consider zero percent salary increase for FY 05-06.
- Careful evaluation of infrastructure and programming needs in the Five-year Capital Improvement Program to fund and deliver the Council's highest priority projects. These projects will include completion of design for the new Library, initiate design for two parking garages, and major infrastructure and street improvement in Main Street and Abel Street. All these capital improvement projects, centered in the Midtown area, are prioritized to encourage commercial and residential development that will provide economic stability in that area.
- Complete Phase II of the Transit Sub-Area Land use Plan around the southern boundary of Milpitas in order to focus on developments that will integrate with the light rail system and the future BART system
- Continue to stabilize the General Fund expenditure and revenue in order to maintain a high general credit rating - Standard & Poor's rated the City "AA" in FY 04-05.

## **BUDGET OVERVIEW**

The total Annual Budget for FY 2005-06 is \$143,021,842. This is a 13.9% increase from the FY 2004-05 Annual Budget. Excluding the City's FY 05-06 Capital Improvement Budget, the total operating budget is \$109,619,129, a 1.4% decrease from last year. The total budget includes the City's Water and Sewer Utility enterprise operating budgets of \$10,877,713 and \$19,279,064 respectively. It also includes the City's Redevelopment Agency budget of \$40,344,440. The total budget for capital improvements for FY 05-06 is \$33,402,713. A separate Capital Improvement Program (CIP) budget document is produced annually that provides a detailed description of each project. The CIP document includes all projects for the budget year as well as profiling anticipated community needs over the subsequent four years. A summary of each project description and funding requirement can be found on pages 219 through 231 of this document.

The General Fund budget is \$65,819,064, a 2.5% decrease compared to FY 2004-05. The primary component of this decrease is in the category of Salaries and Benefits. Salaries and Benefits show a net decrease of 5% from last year due to a combination of factors: scheduled wage increases in accordance with current Memoranda of Understanding with the employee groups, increased medical insurance premium, and increased employer contribution to California Public Employees' Retirement System (CalPERS). These increases will be offset by planned hiring freeze in all vacant positions and reduction of work force through attrition, resulting in a net decrease of 5% in salaries and benefits.

Services and supplies increased by 10% compared to last year primarily due to resumed funding of equipment and vehicle replacement in the form of amortization charge to the user departments. In the last three years, in order to save costs for the General Fund, the amortization charge for equipment and vehicle replacement was suspended.

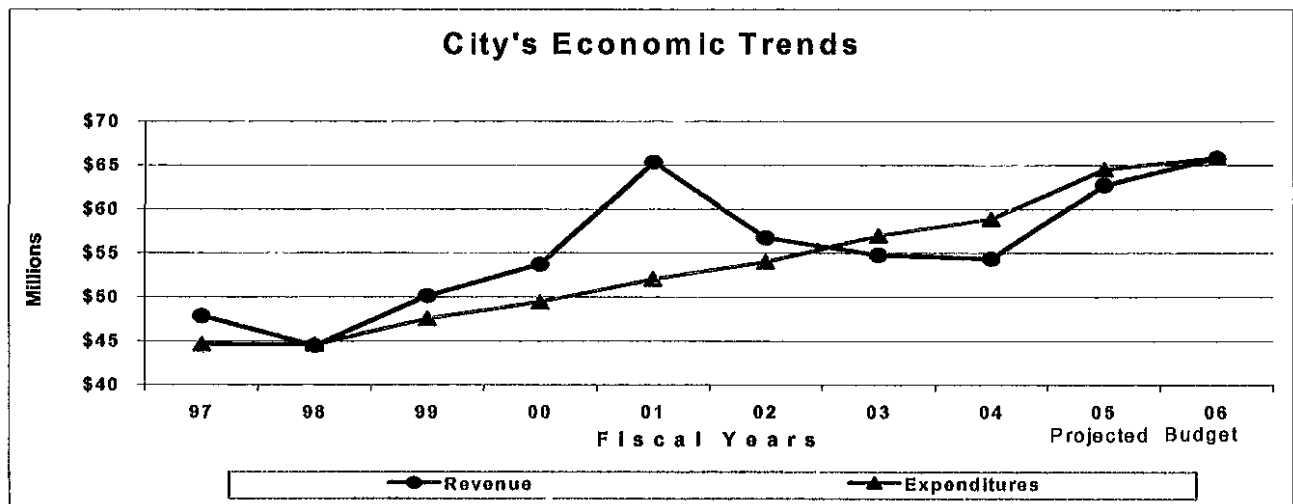
The budget anticipates an overall 3.9% General Fund revenue growth in FY 05-06 compared to FY 04-05 revised revenue estimate. However, the growth of the General Fund revenue is not sufficient to keep pace with the expenditures. In order to balance FY 05-06 budget without using any General Fund reserves, the proposed budget includes cost saving measures as follows:

- Continue the present hiring freeze in all vacant positions in FY 05-06. The hiring freeze has been a key element in helping the revenue shortfall in the last three years and is projected to contribute more than \$4 million savings for next year.
- Pre-fund the employer's contributions to CalPERS for FY 05-06. Due to the sluggish economy and lower stock prices impacting CalPERS investment portfolio in 2001 and 2002, the required employer contribution rates for the employee retirement plans increased

significantly since FY 04-05 and will remain high in the next two years. The employer contribution rates in FY 05-06 will be 15.142% for the Miscellaneous Employee Plan and 26.24% for the Fire and Police Safety Plan, approximate increases of 31%, and 2% respectively over last year. Typically, the annual return of CalPERS' investment portfolio exceeds the City's. By pre-funding the FY05-06 employer's contribution at the beginning of the year instead of pay-as-you go with each pay period, the City will save approximately \$625,000 on the employer's contribution.

- Reduce workforce through attrition. While the City was able to use reserve balance to maintain a high level of service in the past, the types of service that the City provides and the ways to provide these services need to be reviewed comprehensively in times of prolonged budget deficits. Reducing workforce through attrition is a short-term solution that will allow time for the City to study and implement more long-term strategies.
- Fund 95% of the operating budget. Historically, the City's departments have rarely expended 100% of their budget. To achieve approximately \$3.3 million cost savings up front, each department's General Fund budget will only be funded at a 95% level. This budget strategy will allow each department latitude in controlling each unit's costs by prioritizing its expenditures in such a manner that will least impact services to the public.
- FY 05-06 Operating budget does not anticipate utilizing any General Fund unreserved, undesignated fund balance. Therefore, the remaining \$10.8 million fund balance which is at approximately 16.4% of the FY 05-06 budget appropriations should be sufficient and is in compliance with the City's budget policy of maintaining a 15% reserve.

The chart below provides the historical trend of the General Fund revenues and expenditures from FY 96-97 through FY 04-05, along with the budget projections for FY 05-06.



## **Economic Trends, Development and Profile**

Milpitas is situated within the Silicon Valley region, known throughout the world as the home of high technology, innovation and research. Milpitas, considered the "Crossroads of Silicon Valley," with most of its 13.6 square miles of land situated between two major freeways, I-680 and I-880, has experienced tremendous growth since its incorporation in 1954. Over the past 30 years, the population growth has increased from 26,561 in 1970 to 62,698 in 2000 (latest census). The Bay Area has experienced significant employment growth from 1992 through 2000, adding more than 170,000 jobs. However, in 2001, Santa Clara County experienced its first negative job growth since 1992. Between 2001 and 2004, over 130,000 jobs were lost as a result of the economic recession. This region is severely impacted due to concentration of the high-tech industry and the shifting of some of these technology and manufacturing jobs overseas. Consequently, while the nation and the rest of the State have begun to experience economic growth, the Silicon Valley is still lagging. Milpitas is similarly impacted because of its location and comparable economic mix.

There are approximately 1,790 acres or 2.9 square miles of land area in the City limits designated for various industrial uses; about 271 acres are vacant and available in parcels ranging in size from ½ acre to 75 acres. Included in this acreage total are eight industrial parks and 550 manufacturing plants. An estimated 350 acres of land are dedicated to regional and community retail centers supporting 3.5 million square feet of commercial shops. The Great Mall of the Bay Area is the largest enclosed mall in Northern California, with approximately 1.1 million square feet of leasable space for retail and entertainment operations. Several local shopping centers serve regional needs for Asian-oriented retail and services.

The leading economic segments are restaurants, apparel stores and electronics equipment. The five largest manufacturing employers are Cisco Systems, Inc., Lifescan Inc., LSI Logic Corporation, Seagate Technology and Solectron Corporation. Other major employers are Palm One, Linear Technology, KLA-Tencor. Several of these top employers make Milpitas their corporate headquarters. The two largest non-manufacturing employers in Milpitas are The Great Mall of the Bay Area and the Milpitas Unified School District.

Milpitas Redevelopment Agency is one of the top ten RDAs in the State. With the 2003 expansion of the RDA, Redevelopment Area 1 encompasses 2,230 acres or 26% of the City. The Project area produces over \$25 million in annual gross tax increment. In November 2003 the RDA issued \$200 million in tax allocation bonds to generate funds for key City and Agency projects including a new library, major infrastructure improvements and a new senior center.

## **Major Development Activities in the City**

*Midtown Specific Plan* – The vision for this area includes high density housing within walking distance to light rail and BART to support the public investment in mass transit, transforming neighborhoods into an attractive and economically vital district with plazas and network of pedestrian and bicycle trails, a vibrant streetscape along the north end of Main Street and a mixture of housing, shopping, employment, entertainment, and cultural and recreational opportunities. The implementation efforts began by several capital improvement projects such as the new Library, parking garages, Main Street and Abel Street infrastructure improvements. Other development activities that are being planned by outside agencies include the design and construction of a County Health Center and a 104-unit Senior Housing restricted for low-income seniors.

*Transit Sub-Area Land Use Plan* – The City developed phase I of a Transit Sub-Area Land Use Plan which provides development concept for the area surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations. In FY 05-06, the City will initiate phase II of the Plan which will include a general plan amendment, zoning changes, design guidelines, fiscal impact study and environmental report. The intent of the Plan is to foster economic development of the area, strengthen and expand retail uses to increase sales tax revenues, attract major retailers and provide housing and amenities such as parks, schools, retail and restaurants.

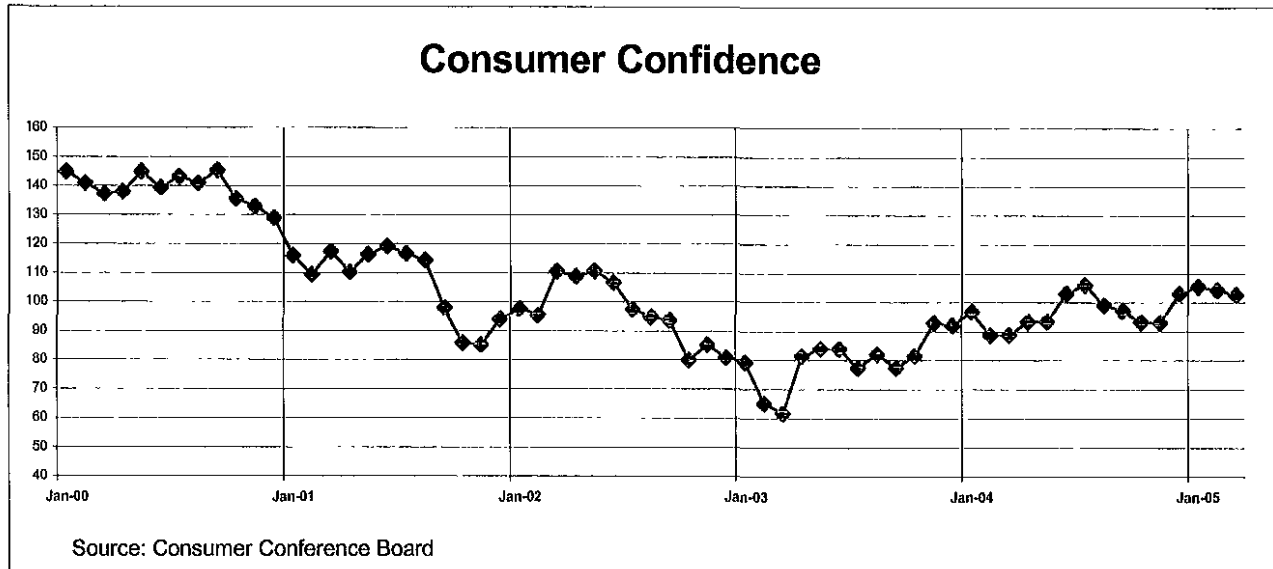
*Residential Development* – Residential development activities remained relatively strong and have shown sign of increased activities. Milpitas represents one of the more affordable alternatives in Santa Clara County, with median home prices at \$585,000. Residential development approvals in progress outside the Midtown area include Barry Swenson's Twin Towers (181 condominium units). Spurred by the high density potential of the Midtown Plan, residential and mixed use development approvals in progress within the Midtown area include KB Homes (683 units of single family homes, townhouses and condominium), Apton Plaza (98 condominium units and 3,000 square feet of retail space), and Fairfield (481 apartment units). Residential development under construction includes 285 town houses and condominium units of the Parc Place project, of which 58 units will be deed restricted for affordable housing.

*Non-residential Development* – Non-residential development includes redevelopment of existing tenant spaces and buildings in the Town Center. A Super Safeway has been approved and construction is anticipated to begin in FY 05-06. Other commercial development activities include the development of land adjacent to the KB Homes for three car dealerships.

### *Consumer Confidence Level*

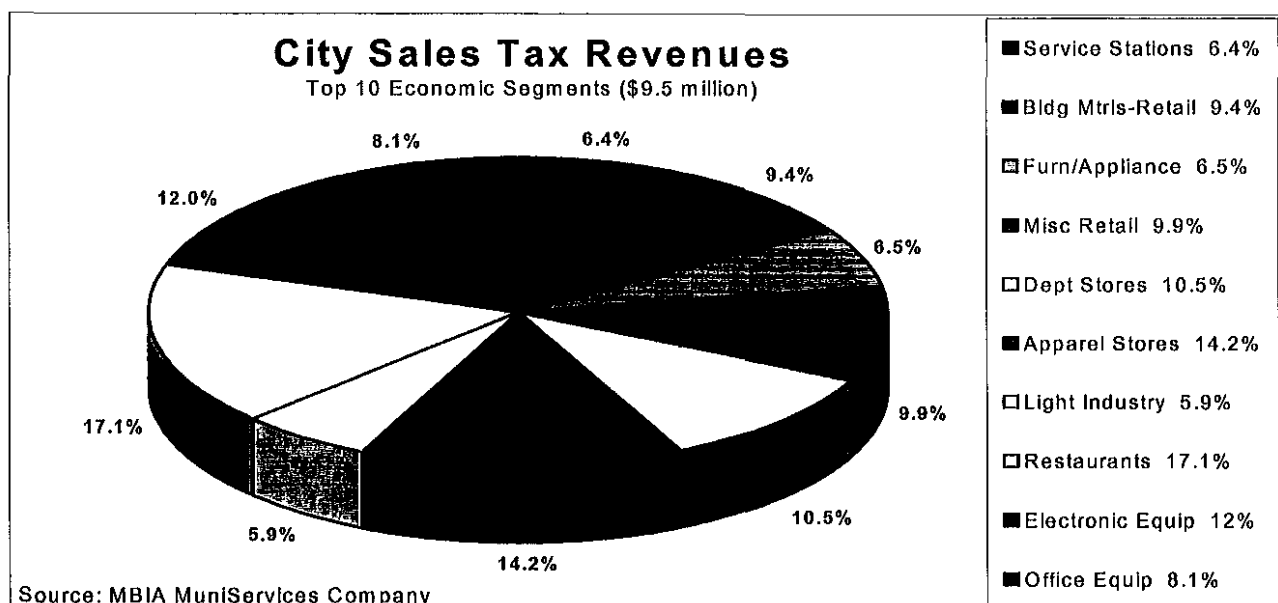
Despite recent fluctuations of the consumer confidence index, the overall consumers' assessment of current economic conditions remains favorable, primarily due to

improved job outlook. Consumers are more optimistic than they were a year ago, which could lead to easing in consumer spending. This sentiment is reflected by increased local sales tax revenue in recent months



### Top Ten Sales Tax Generators by Economic Segment

The chart below provides a snapshot of the City's sales tax revenue by economic segment in the last four quarters. Total amount of sales tax revenue for the latest benchmark year was about \$11.7 million, with the top ten economic segments generated about \$9.5 million. Sectors such as business-to-business, general retail, and construction all show improvement over a year ago.





### **Revised General Fund Revenue Estimates for Current Fiscal Year 2004-2005**

Recent economic recovery in the Bay Area improved the City's revenue considerably. This is the first time in four years that the year-to-date revenue was better than projected. **The revised revenue estimates for FY 2004-05 assume that General Fund revenues will be \$3.9 million (9.6%) more than budgeted.**

Sales tax revenues are expected to be \$2.2 million more than estimated due to improved sales in the business-to-business and office equipment segments. Building permit revenue is expected to be \$675,000 more than originally estimated due to residential development activities in the Midtown area. Both of these revenue sources are an indication that economic recovery in this region has finally occurred.

Transient Occupancy Tax (TOT) revenue is expected to be more than original estimate by \$390,000. The increase in TOT revenue can be attributed to increased business travel to the area. Interest earnings on the City's investment portfolio are expected to be lower than the FY 2004-05 original estimates by \$600,000 due to lower interest rates and lower fund balances to invest.

Property tax is expected to be \$3.4 million more than original estimate primarily due to elimination of the Vehicle License fee (VLF) backfill by the State. To make up for the loss of VLF, local agencies received adjustments from a Vehicle License Fee Property Compensation Fund established in each county. The allocation is considered property tax revenue and will grow or decline according to local assessments. Consequently, FY 04-05 motor vehicle license in-lieu tax revenue is revised downward by about \$3.2 million. In addition, the General Fund contributed about \$1 million in property tax revenue to ERAF as required under Proposition 1A. The shift of \$1 million from the General Fund property tax revenue was anticipated in the FY 04-05 budget.

Despite increases experienced in several major revenue sources, the General Fund is projected to close out the fiscal year using about \$2 million of reserve funds, close to the original estimate. The reason was FY 04-05 budget anticipated the transfer of \$6.1 million from the Redevelopment Agency Fund for acquisition of several key City properties for redevelopment purposes. The transfer has been postponed to FY 05-06.

## REVENUES AND OTHER FINANCING SOURCES

Revenue detail is shown in the Financial Information section of the budget. A summary of revenues, including transfers between funds, and the increase or use of fund balances for the following funds is shown on the chart below as a comparison between FY 04-05 and FY 05-06.

### REVENUES AND OTHER FINANCING SOURCES

<u>Fund</u>	<u>FY 04-05</u>	<u>FY 05-06</u>	<u>Over (Under)</u> <u>Prior Year</u>
General	\$ 67,484,450	\$ 65,834,064	\$ (1,650,386)
Special Revenue	3,629,285	4,080,748	451,463
Capital Project	3,897,961	2,605,813	(1,292,148)
Redevelopment Agency	31,159,731	40,344,440	9,184,709
Water	10,705,288	10,877,713	172,425
Sewer	8,661,734	19,279,064	10,617,330
Total	<u>\$125,538,449</u>	<u>\$143,021,842</u>	<u>\$ 17,483,393</u>

### Revenue Estimates for Fiscal Year 2005-06

Total estimated revenue and other financing sources that include the use of reserve are estimated to increase by \$17.5 million compared to the FY 2004-05 budget. In FY 2004-05 the General Fund revenue was originally estimated to be lower but was revised upward by \$3.9 million to reflect the economic improvement experienced in the past year. In FY 05-06, General Fund revenues are expected to have a modest growth of 3.9% over FY 04-05's revised revenue. The assumptions for projection and analysis of the major revenue sources are discussed below.

### General Fund Revenue Estimates

FY 2005-06 estimated General Fund revenue assume a \$5.6 million or 14% increase over FY 04-05 budgeted revenue but a modest 3.9% or \$1.7 million increase over FY 04-05 revised revenue projection. Some of the changes include the following.

Sales tax revenues for FY 04-05 are revised to be more than budget by \$2.2 million. The assumption for FY 05-06 sales tax revenue is a 6.3% increase over FY 04-05 revised estimate and is estimated to be \$15.6 million. The projection appears to be optimistic especially given that FY 04-05 has already experienced an 18% growth in sales tax revenue. However, the projection is based on recent recovery in the

business-to-business and office equipment economic segments which were high sales tax revenue contributors to the City in the past. In addition, the City anticipated general increase in other business segments such as construction, restaurants, and general retails as well as the opening of three car dealerships in late FY 05-06.

Building permit revenue for FY 04-05 is estimated to be \$675,000 more than budget due to recent residential development activities such as Parc Place and KB Homes in the Midtown. In FY 05-06, building permit revenues are projected to be approximately \$2.5 million, a 6.5% growth over FY 04-05 revised revenue, based on the number of recent applications submitted and the size of the projects. It is anticipated KB Homes will continue with their development activities and other residential development projects such as Fairfield, Apton Plaza, and Barry Swenson's Twin Towers will commence.

Property tax revenues are estimated to be \$4.2 million more than FY 04-05 budget due to a combination of factors. First, it is anticipated that property tax revenue will increase by 6% based on report of growth on the assessed valuation provided by the County Assessor. Second, in FY 04-05, the State implemented a VLF swap by adjusting local agencies' property tax revenue to offset the loss of motor vehicle license fee backfill. That adjustment results in about \$3.2 million increase in property tax revenue in FY 05-06 but is offset by similar loss in motor vehicle license in-lieu tax. FY 05-06 projection also includes a shift of \$1.1 million General Fund property tax to ERAF, as mandated by the State. Projected property tax revenue for FY 05-06, incorporating all the factors mentioned above, is approximately \$13.5 million.

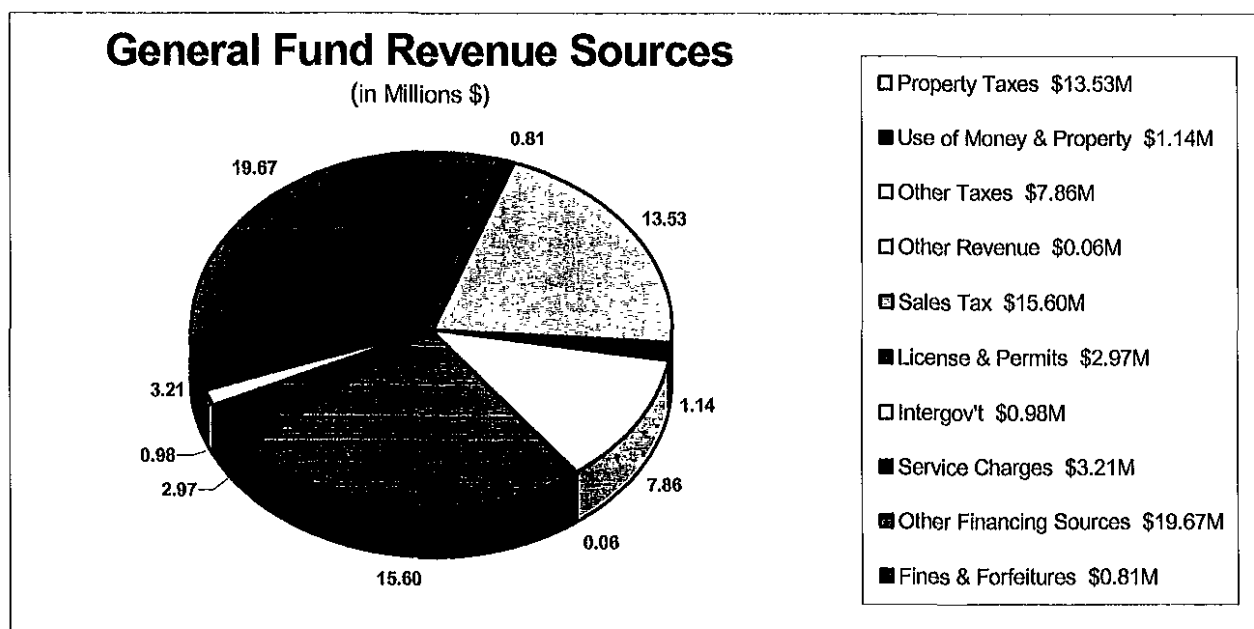
Hotel/motel Transient Occupancy Tax (TOT) revenue showed an increase of \$390,000 over budget in FY 04-05. It is projected that that FY 05-06 TOT will increase by a modest 4% to \$4.3 million, in anticipation of more business travel as the economy in this region continues to recover. Although there is a correlation between business travel and increased sales activities, the projection for TOT revenue is more conservative because of the ability of teleconferencing for many high-tech companies.

Motor Vehicle In-Lieu Tax in FY 05-06 is expected to decrease by \$3.2 million compared to the FY 04-05 budget. As mentioned above, the State eliminated the VLF backfill in FY 04-05. To offset the loss, local agencies' property tax revenues were adjusted by the same amount. The remaining VLF of approximately \$530,000 is not significant enough to be considered major revenue sources in the future.

Interest income is anticipated to decrease by \$600,000 compared to the FY 04-05 budget, primarily due to lower investment earnings from the City's investment portfolio as a result of lower interest rates and lower fund balances to invest. Projected interest income for FY 05-06 is approximately \$1.1 million. Interest income for the General Fund is based on projected earnings from the current portfolio, assumed reinvestment rate of 3.5%, and projected General Fund cash balance.

Other Financing Sources are operating transfers between funds primarily to allocate operating costs from one fund to another. The rationale of cost allocation is to allocate central service departments' budgeted costs that are typically born by General fund to other funds based on estimated staff and service support provided to each fund. In 1994, the city developed a cost control study which also included a cost allocation schedule. The cost allocation schedule is updated each year based upon the approved budget for the year. A detailed Internal Cost Allocation Schedule for FY 05-06 can be found on pages 82 to 83.

The chart below provides an overview of the City's General Fund revenue sources including operating transfers from other funds.



### **RDA Revenue Estimates**

FY 04-05 Redevelopment property tax increment was revised downward by \$2.6 million or 8.5% to \$25.1 million. Due to high vacancy rate experienced by a number of commercial properties, some of the property owners initiated assessed valuation appeals with the County and were successful with their efforts. As of result, FY 04-05 tax increment revenue reflects the continued assessed valuation decline in commercial properties. However, assessed valuation on residential properties remained high and based on a recent report on assessed valuation growth provided by the County Assessor, FY 05-06 tax increment is expected to increase by approximately 6%.

In FY 05-06, Redevelopment Agency will not receive any sales tax revenue. The Agency is no longer obligated to track and receive any sales tax revenue due to expiration of the last sales tax sharing agreement with a developer. All the sales tax

revenues that are generated within the Redevelopment project areas will be reverted to the City's General Fund.

### **Utility Rates**

**An 8.2% and 6.7% water rate increase in FY 05-06 and FY 06-07 respectively is planned.** The key factors affecting the water rates are estimated increases in wholesale water costs from the Santa Clara Valley Water District due to increased capital improvement project costs and employer's contribution to PERS. Water rate increases are expected to occur for the next few years because wholesalers are projecting further increases to meet new regulatory requirements. The current operating fund balance for the Water fund is approximately \$2.7 million. The rate increase is consistent with the Utility Financial Master Plan adopted by the Council in FY 02-03. The Plan identifies funding mechanisms for anticipated capital projects and provides a 20-year projected financial framework for water and wastewater rates.

The budget also includes a **9% sewer rate increase** for single-family residential customers in FY 05-06 and FY 06-07 respectively. The sewer fund currently has a \$5.7 million operating fund balance and approximately \$5.7 million replacement fund balance.

**For FY 05-06 and FY 06-07, the recycled water rate will increase by 8.2% and 6.7% respectively, same as water rates, for most categories** in order to maintain irrigation rates at 80% of potable rates and industrial and inside dual plumbing rates at 50% of potable rates. Sales are estimated to remain constant after a recent expansion of the customer base.

### **EXPENDITURES**

A budget comparison of appropriations for all funds between FY 04-05 (Adopted Budget) and FY 05-06 (Adopted Budget) is as follows:

<u>Appropriations</u>	<u>Adopted Budget FY 04-05</u>	<u>Adopted Budget FY 05-06</u>	<u>Over (Under) Prior Year</u>
Salaries & Benefits	\$ 60,579,025	\$ 58,953,441	\$ (1,625,584)
Services & Supplies	28,001,689	28,497,237	495,548
Capital Outlay	<u>4,558,700</u>	<u>1,184,095</u>	<u>(3,374,605)</u>
<b>Operating Costs</b>	<b>\$ 93,139,414</b>	<b>\$ 88,634,773</b>	<b>\$ (4,504,641)</b>
Capital Improvement	14,323,712	33,402,713	19,079,001
Debt Service	<u>18,075,323</u>	<u>20,984,356</u>	<u>2,909,033</u>
<b>Total Appropriations</b>	<b><u>\$ 125,538,449</u></b>	<b><u>\$ 143,021,842</u></b>	<b><u>\$17,483,393</u></b>

**The total expenditures represent an overall 13.9% increase from FY 04-05.** Operating expenditures represent a decrease of 4.8% compared to last year. Following is a summary of the changes in operating expenditures by object category:

**Salaries and benefits are expected to decrease by 2.8%.** The net decrease to the General Fund is \$2.8 million (5%). The total citywide budget decrease in this category is \$1.7 million, which is due to the following contributing factors:

First, the projected FY 05-06 salary and wage increases reflect negotiated increases in accordance with various Memoranda of Understanding that have not expired. The FY 05-06 budget anticipates no salary increase for the first year in the contracts that are still being negotiated with several bargaining units. Health insurance premiums are anticipated to increase by approximately 8% in January 2006.

Second, in accordance with the City Council's direction, a number of vacant non-public safety positions have been frozen since FY 01-02 to save personnel costs. In the FY 05-06 Adopted Budget, vacant non-public safety positions will remain frozen and a number of the vacant public safety positions will also be frozen for the entire year. The hiring freeze, which has been factored in the salaries and benefits expenditure, will contribute no less than \$4 million in savings for next year.

Third, the salaries and benefits expenditure includes increased employer contribution to the Public Employee Retirement System. Due to sluggish economy and lower stock prices, CalPERS experienced two years of negative returns on their investment portfolio. Even though the stock market has recovered to equal or exceed the anticipated return of 7.75% in the current fiscal year but due to the smoothing technique used by CalPERS, the City's contribution rates for the Miscellaneous employees will increase significantly in FY 05-06 and to a lesser degree for Public Safety employees. The Adopted Budget anticipates pre-funding the employer contribution for FY 05-06 in July. The rationale for doing this is to take advantage of the higher return earned by the CalPERS investment portfolio, saving the City approximately \$625,000 in retirement contribution expense.

Finally, by funding the operating budget at a 95% level and further reducing work force through attrition, the General Fund is anticipated to save additional \$4.1 million in salaries and benefits.

**Services and supplies are expected to increase by \$522,000 or 2% citywide,** with \$1 million (10%) increase in the General Fund. In FY 04-05, the services and supplies budget was aggressively reduced to achieve cost savings. In FY 05-06, majority of the increase in General Fund, approximately \$780,000 is due to resumed funding of the equipment replacement by amortization charge to the user departments. Other increases in the service and supplies category include \$250,000 projected contribution

to the Public Arts Fund and \$286,000 increased contribution to the Waste Water Treatment Plant operation for the Sewer Utility Fund.

**Capital outlay** - This category includes new and scheduled vehicle and equipment replacements. Total capital outlay request for FY 05-06 is \$1,184,000. Approximately \$770,000 of the equipment and vehicles which will be fully funded by the Equipment Replacement Fund. Major Capital outlay requests include the following: \$90,000 for a 10 wheel dump truck, \$287,000 for a Sewer Hydro Vac, and \$128,000 for an Altec boom truck for the Public Works Department, and \$205,000 for eight police vehicles for the Police Department.

**Debt Service** is projected to increase \$2.9 million in FY 05-06. Included in the debt service category are payments for two outstanding debt issues, the 2000 Certificates of Participation (Technology COPS) and 2003 Redevelopment Agency Tax Allocation Bonds, a \$3 million ERAF obligation of the Redevelopment Agency mandated by the State and a \$4 million obligation to the County of Santa Clara created by a Purchase and Sale Agreement between the County and the Redevelopment Agency.

The following table shows the annual debt service requirements for the two outstanding debt issues:

<u>Year Ending June 30</u>	<u>Total Principal</u>	<u>Total Interest</u>
2006	\$ 4,750,000	\$ 9,233,475
2007	4,880,000	9,090,375
2008	5,035,000	8,937,721
2009	5,190,000	8,754,596
2010	5,035,000	8,548,559
2011-2015	28,190,000	39,646,969
2016-2020	35,550,000	31,964,684
2021-2025	45,620,000	21,683,066
2026-2030	47,915,000	9,617,415
2031-2033	16,905,000	1,085,659
Total	<u>\$199,070,000</u>	<u>\$148,562,519</u>

## DEBT LIMIT

The City's legal bonded debt limit, as established by the California Government Code, is approximately \$352 million. The City through the Milpitas Redevelopment Agency and the Milpitas Public Financing Authority issued various bonds in the past. Currently, there are two outstanding debt issues, the Redevelopment Agency Tax Allocation Bonds issued in 2003 with an outstanding balance of \$194,440,000, and the

Technology Financing Phase I Certificates of Participation issued in 2000 with an outstanding balance of \$4,630,000. Neither one of these bonded debts is subject to the legal debt limit. The final payments on these two bonds will occur between fiscal years 2010 and 2033.

The City's debt policy includes a comprehensive, thorough review and analysis of the City's long-term capital project needs. Once project needs are established and prioritized, funding options are reviewed. Depending on the funding requirements and available reserves, either existing reserves are used or tax-exempt securities are issued.

## **CAPITAL IMPROVEMENTS**

The Capital Improvement Budget proposed funding for FY 05-06 by Project Category is as follows:

<u>Project Category</u>	<u>Adopted Budget</u>	<u>Percentage of Total</u>
Community Improvements	\$14,120,000	42.28%
Park Improvements	1,144,000	3.42%
Street Improvements	3,318,713	9.94%
Water Improvements	1,160,000	3.47%
Sewer Improvements	12,035,000	36.04%
Storm Drain Improvements	1,625,000	4.85%
<b>Total</b>	<b>\$33,402,713</b>	<b>100.00%</b>

The total FY 05-06 Adopted Capital Improvement Program (CIP) funding is \$19 million more than the FY 04-05 CIP, due to funding requests for new projects, \$9.8 million for the East Garage including land acquisition and construction, and \$6.7 million for Sewer Treatment Capacity. An extensive prioritization of all CIP projects for consistency with available resources and future needs has been performed to ensure that the selected projects can be accomplished. The FY 05-06 Capital Improvement Program has been developed to fund and deliver the Council's highest priority projects.

The Capital Improvement Budget has been reviewed by the Planning Commission to determine its conformance with the City's General Plan. Park improvement projects for FY 05-06 were also reviewed by the Parks, Recreation and Cultural Arts Commission.

Although cost savings is one of the considerations in implementing the capital improvement program, many projects are prioritized for reasons such as health and safety for the public, replacement of deteriorated capital assets or systems, or



enhancement of economic development and quality of life for the citizens. New buildings tend to be more energy efficient and replacing deteriorated capital assets tend to save repair costs in the long run. The actual cost savings is difficult to quantify. On the other hand, some of these projects will increase operating costs upon completion. These costs, to the extent that they can be estimated for each project, are identified in the Capital Budget section of this document. Total estimated maintenance costs is approximately \$177,200 annually.

The Capital Budget Section of this document also provides a brief description and status of the projects to be funded in FY 05-06. For further details on the capital improvement projects, a separate Five Year Capital Improvement Program FY 2005-2010 prepared by the Engineering Division may be obtained at 455 E. Calaveras Blvd, Milpitas, CA 95035.

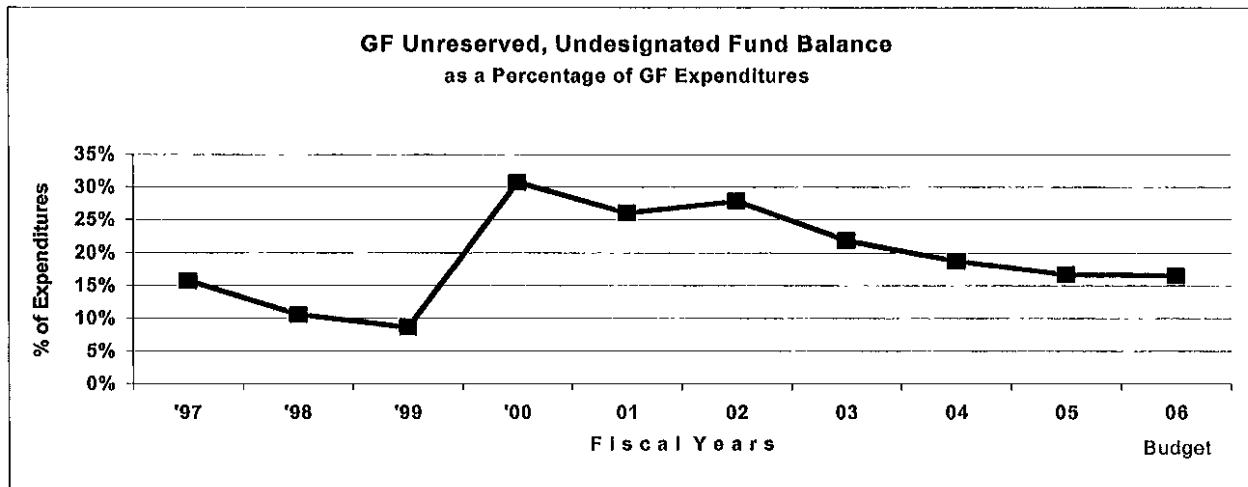
## **FUND BALANCES/RETAINED EARNINGS**

An important resource for a City is the money that is available for future appropriations and unexpected emergencies. A complete schedule of the Budget Summary of the Revenue, Expenditures, Transfers, and Fund Balances is shown in the Financial Information section of the Budget. The following schedule shows the estimated undesignated Fund Balance for the General Fund and the percentage of the balance in relation to the Fund's total appropriations. Also shown are the total estimated fund balances for the Restricted Funds:

<u>Fund</u>	<u>Budgeted Expenditures FY 05-06</u>	<u>Estimated Balance 6/30/06</u>	<u>% of Budgeted Expenditures</u>
<u>Unreserved – Undesignated</u>			
General	\$ 65,819,064	\$ 10,808,841	16.43%
<u>Restricted</u>			
HCD		2,884,337	
Street Improvement		11,105,133	
General Government CIP		2,428,339	
Park		8,533,654	
Water		9,603,494	
Sewer		14,828,090	
Storm Drain		875,076	
Redevelopment		134,227,941	
Library		6,499,158	
Other		6,117,672	

The projected percentage of the estimated unreserved, undesignated fund balance for the General Fund is 16.43% which is sufficient to provide for needed changes to the appropriations in any one fiscal year. The Council policy provides that the General Fund reserve will be maintained at a minimum of 15% of the General Fund budget appropriations. In addition, it is projected that \$3.5 million unreserved fund balance, designated for the PERS Rate Stabilization Reserve will remain at the end of FY 05-06.

The chart below provides a historical perspective of the City's General Fund unreserved, undesignated fund balance as a percentage of General Fund expenditures.



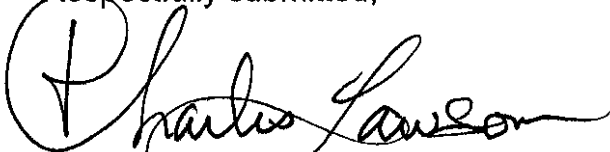
The Restricted Funds listed on the previous page have legal restrictions on the way in which the funds may be used. The estimated fund balances in the Restricted Funds include amounts that have already been committed for projects or programs approved by the Council/Agency. In addition, the Restricted Funds fund balances include bond proceeds or anticipated bond proceeds that have legal restrictions for their use as outlined in the bond documents.

## ACKNOWLEDGEMENTS


We want to thank the Mayor and City Council for their guidance and integrity in directing the financial affairs of the City in a most responsible and progressive manner. We also extend our appreciation to the Finance Department staff who worked on the budget, along with all the Division/Department Heads and the Budget Liaisons for their hard work, assistance, and cooperation in preparing this Budget.

The overall budget envisions an operating program that carefully considers the general economic climate in conjunction with the many progressive projects and programs the City will be providing to the citizens of Milpitas. The Budget establishes the projected resources to pay for all requested appropriations. The City Council and members of the Redevelopment Agency have guided the City of Milpitas to a very stable financial position that enables the City to undertake new capital improvement projects while maintaining its high level of services for all Milpitas citizens, even during difficult economic situations. The City Council's approval of the FY 05-06 Budget continues its commitment to excellence in citizen services and prudent financial management.

Respectfully submitted,

A large, stylized handwritten signature in black ink that reads "Charles Lawson". The signature is written over the printed name and title.

Charles Lawson  
Acting City Manager

A handwritten signature in black ink that reads "Emma C. Karlen". The signature is written in a cursive style.

Emma C. Karlen, CPA  
Director of Financial Services